

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:480
ANSWERED ON:24.08.2001
SAFETY OF SMALL INVESTORS
NAWAL KISHORE RAI;SUSHIL KUMAR INDORA

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government have taken any new measures for the safety of the investment made by the small investors in the financial institutions operating under the Government control;
- (b) if so, the details of the measures taken recently in this regard;
- (c) whether the Government propose to make changes in the existing system to bring in transparency and accountability in the management in order to ensure safety of investment made by the small investors in the financial institutions;
- (d) if not, the reasons therefore and whether there is a provision of accountability in the present system; and
- (e) if so, the level at which the accountability lies?

Answer

FINANCE MINISTER (SHRI YASHWANT SINHA)

- (a) to (e) A statement is laid on the Table of the House.

Statement referred to in the reply to Lok Sabha Starred Question No. 480 by Dr. Sushil Kumar Indora and Shri Nawal Kishore Rai for answer on 24th August 2001 regarding Safety of Small Investors.

(a) & (b) Financial market entities are regulated by the Securities and Exchange Board of India (SEBI)/ Reserve Bank of India (RBI), Department of Company Affairs (DCA) depending on the nature of their activities. Thus, companies which mobilise resources through public issues in the capital market come under the regulatory purview of SEBI; companies which take deposits from the public are regulated by DCA; and non-banking finance companies (NBFCs) are under the jurisdiction of RBI.

Mutual funds are regulated by SEBI under the SEBI (Mutual Funds Regulations, 1996). SEBI monitors the activities of mutual fund through various periodical reports submitted by them and through periodical inspections conducted through independent chartered accountants. Further SEBI has prescribed that Asset Management Company of mutual funds must exercise due diligence and care while making investment decisions. With a view to bringing about transparency in investment decisions of mutual funds, SEBI had advised AMCs to maintain records in support of each investment decision. SEBI had prescribed an advertisement code for all mutual funds so that the advertisements issued by them are truthful, fair and clear.

On the suggestion of the Government, UTI set up a Committee on Corporate Positioning under the Chairmanship of Shri Y.H. Malegam, to review its competitive and commercial positioning in the light of financial sector reforms and developments in the mutual funds industry. UTI has intimated that the Committee is in the process of submitting its report.

The Reserve Bank of India Act was amended in January 1997 to empower RBI for effective regulation and supervision over NBFCs. A new regulatory framework was announced in January 1998 to ensure that only well run NBFCs are allowed to access public deposits. RBI has been taking various regulatory and supervisory measures to ensure a healthy growth of NBFC sector as also to provide reasonable safety to depositors' money.

The Companies, 1956 Act was recently amended through the Companies (Amendment) Act 2000 to define 'small investors' and 'small depositors'. Offences relating to or arising out of acceptance of deposits have been made cognizable offences under the Code of Criminal Procedure 1973; an enabling provision has been added for small shareholders for being represented on the Board of Directors of any company so that their interests are highlighted and protected.

- (c), (d) & (e) A Financial Companies Regulation Bill 2000 has been introduced in Parliament for various amendments to strengthen the regulatory framework for NBFCs. Government also proposes to amend the SEBI Act to strengthen provisions for investor protection.

